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SUBJECT: CHINA'S NON-FERROUS METALS INDUSTRY GETS GOVERNMENT
SUPPORT

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¶1. (SBU) Summary: China announced May 11 a detailed three-year plan to stimulate its non-ferrous metals industry focused on industrial consolidation and technology innovation. The plan encourages regrouping among non-ferrous metal companies with the goal of forming three to five large-scale corporations with advanced technology and production capacity by 2011, particularly for non-ferrous metals such as copper, aluminum, lead and zinc. The plan also calls for the reduction of overcapacity, although some industry sources predicted resistance from local governments. Embassy contacts said that large state-owned enterprises (SOEs) would be the likely beneficiaries of support measures, including export rebates, subsidies for technology, and support for overseas acquisitions. End Summary.

Support for Industry Hit Hard by Global Economic Downturn

¶2. (U) The State Council announced May 11 a non-ferrous metals industry revitalization plan to promote industry growth, increase domestic demand, and stabilize the market. The plan calls for controlling total production volume, eliminating outdated and inefficient production, improving technology and promoting restructuring. More specific supporting policies are expected to be announced soon. After a decade of rapid growth, China's nonferrous metals industry was hit hard by the global economic downturn starting in September 2008. The prices of some metals dropped 70 percent, stockpiles increased dramatically, exports declined, and many producers either reduced production or closed down their factories. According to industry analysts, the economic downturn has focused the government's attention on the need to reduce overcapacity, restructure the industry, promote innovation and eliminate backward production.

Calls for Industry Consolidation

¶3. (SBU) The plan calls for the creation by 2011 of three to five nonferrous metal corporations with advanced technology and production capacity. By 2011, the country's top ten producers of copper, aluminum, lead and zinc are expected to occupy 90 percent, 70 percent, 60 percent and 60 percent, respectively, of the total domestic production volume. The plan encourages large "backbone"

enterprises to carry out mergers and acquisitions within their regions and even across regions, supports aluminum companies to merge with power companies in China's western provinces, and encourages restructuring among metal recycling companies. The plan also mentions increasing financial support for the "backbone" enterprises, including possible government support regarding bank loans. According to industry sources, large-scale SOEs such as Chinalco, Jiang Tong Copper, Minmetals, Jinchuan and Zhong Jin Ling Nan Gold will be the likely beneficiaries of industry consolidation.

Focus on Reducing Overcapacity

¶4. (U) As part of its focus on reducing overcapacity, the plan stipulates that no new electrolytic aluminum projects will be approved by the government in the next three years. The plan calls for strict implementation of entry standards and tight control over newly increased production capacity of copper, lead, zinc, titanium and magnesite. The plan set targets for 2009 to gradually eliminate production that relies on backward technology and high energy consumption and causes significant pollution: copper refining capacity will be reduced by 300,000 tons, lead refining capacity by 600,000 tons and zinc refining capacity by 400,000 tons. The plan also mentions the possibility of suspending approval for investment projects in regions which are not eliminating inefficient/energy intensive capacity or for projects that do not adhere to such standards, although it is not clear whether such measures would be enforced.

But Will Local Governments Agree?

¶5. (SBU) Industry experts expressed doubts about the government's ability to eliminate overcapacity, citing local governments'

resistance to closing down factories in their regions. China Non-ferrous Metals Industry Association International Department Director Bian Gang said eliminating overcapacity would require legislation that sets standards of energy consumption and emissions, arguing that many local governments would seek to protect metallurgical refineries to maintain GDP growth. Nevertheless, Bian predicted that market forces would drive many smaller, less efficient producers to close down, as production costs of these companies exceeded commodity prices.

Export Rebates and Technology Subsidies

¶6. (SBU) Two areas of possible concern involve measures to "improve the export environment" and subsidies to improve technology. The plan calls for flexible policies on export duties to encourage the export of higher value-added products. Effective April 1, 2009, the State Council increased VAT export rebates of some non-ferrous metal products to the 9-17 percent range, including high-tech and value-added products such as refined copper sheet and nickel alloy bar. The plan also emphasizes the need for improving technology, particularly of those companies that produce key materials for national defense and the aviation and electronics industries. The government announced May 6 a RMB 20 billion (USD 2.9 billion) fund to promote technology improvement. Although this technology fund was not specifically part of the non-ferrous industry revitalization plan, the non-ferrous metals industry was listed as one of the key industries that could benefit from the fund. Industry sources predict that SOEs would likely receive the lion's share of subsidies for technology upgrades.

Support for "Go Out" Policy

¶7. (SBU) As part of China's "go out" (zouchuqu) policy encouraging overseas acquisitions, the plan calls for Chinese non-ferrous metals companies "to strengthen international cooperation in order to improve the capability to guarantee resources." Although short on specifics, the plan does mention simplifying the approval process

for companies going overseas and providing support for the companies' credit, foreign exchange, insurance, taxation, personnel and visa needs. Commenting on the recent collapse of the Rio Tinto-Chinalco deal, China Non-ferrous Metals Industry Association Director Bian Gang suggested that many Chinese companies lack international experience and should form joint ventures with other international companies when bidding overseas.

Comment

¶8. (SBU) Despite the collapse of the Rio Tinto-Chinalco deal, recent deals struck by state-owned Chinese companies Minmetals and China Nonferrous in Australia suggest that many large Chinese SOEs are still in a strong position to make overseas acquisitions. Enjoying the strong backing of China's government, these SOEs will likely continue to consolidate domestically and expand overseas in the coming years.

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